



SOUTHERN VIRGINIA HIGHER EDUCATION CENTER

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF MAY 2019

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



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Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 9, 2019

Dr. Betty Adams, Executive Director
Southern Virginia Higher Education Center
820 Bruce Street
South Boston, VA 24592

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on May 22, 2019, for the **Southern Virginia Higher Education Center** (Higher Education Center). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Higher Education Center is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for the Higher Education Center. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

Due to the implementation of the new statewide accounting system, we reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of the Higher Education Center’s ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the agency’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; revenues and expenses; capital assets; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- The Higher Education Center does not have documented policies and procedures for all critical business processes. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual require each agency to publish its own internal policies and procedures and obtain written approval from agency management. The Higher Education Center should develop policies and procedures for all critical business areas.

In addition, multiple policies the Higher Education Center does have in place had revision dates greater than five years prior to the time of our review. The Higher Education Center's internal policy #1101 requires management to keep policies up to date and coordinate detailed reviews at least once every five years. The Higher Education Center should update and review all policies and procedures regularly.

- The Higher Education Center is using project codes as opposed to fund codes to segregate its federal funds from other funds. Topic 60104 of the CAPP Manual states that project codes are intended for management use only since "Generally Accepted Accounting Principles (GAAP)-basis reporting is at the fund rather than project level." The Higher Education Center should properly segregate transactions of federal monies by using fund codes in accordance with the principles of governmental fund accounting.
- The Higher Education Center is not in compliance with Accounts' ARMICS requirements. The Higher Education Center has not updated its agency-level risk assessment, performed any transaction-level testing, or updated its ARMICS policies and procedures in several years. Each of these items is required by topic 10305 of the CAPP Manual, which outlines the requirements of the ARMICS program. Just prior to our review, the Higher Education Center created a new ARMICS policy that, if followed, will ensure compliance with ARMICS requirements. The Higher Education Center should follow this updated policy and ensure adherence to the ARMICS requirements.
- The Higher Education Center did not maintain documentation of its fiscal year 2018 system access review for the statewide information systems it uses. Section AC-2 of the Commonwealth's Information Security Standard, SEC 501, requires a review of access for information systems at least annually. Although the Higher Education Center is performing reviews of systems access, the Higher Education Center should maintain evidence of this review to properly demonstrate compliance with the standard.

We discussed these matters with management on July 22, 2019. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/clj



August 13, 2019

Ms. Martha Mavredes, CPA
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Ms. Mavredes:

The Southern Virginia Higher Education Center has reviewed the audit report for fiscal years ending June 30, 2016 through June 30, 2018. We appreciate the opportunity to provide our comments on the report.

The Center acknowledges and concurs with the findings outlined in the *Review Results* section of the report. The findings recommend that we adjust our procedure for recording federal funds received. In addition, it is recommended that the Center update current policies and procedures and add additional procedural documentation in support of certain critical business processes and information systems access. As noted, we have written an ARMICS policy. We will ensure that we remain in compliance with ARMICS requirements.

We would like to extend our appreciation to Mr. Brad Hypes and Mr. Bennett Newman. Mr. Hypes and Mr. Newman were very cordial, professional, and very helpful in addressing our questions and concerns. We appreciate their thorough review and recommendations for improvement.

Thank you again for your assistance. Please let us know if you have any further questions.

Sincerely,

Brenda Terry
Chief Finance and Operations Officer
Southern Virginia Higher Education Center
Phone: (434) 572 – 5562
Email: brendaterry@svhec.org

Toll-Free 800.283.0098 • Phone 434.572.5440 • www.svhec.org